



STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

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September 10, 2004

TO: Senator Lisa Brown, Chair
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FROM: Chang Mook Sohn, Executive Director
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SUBJECT: September 10, 2004 REVENUE COLLECTION REPORT

General Fund-State collections totaled \$823.1 million in the August 11 - September 10, 2004 period. This was \$17.8 million (2.2 percent) more than expected. Real estate activity was strong again this month, exceeding the estimate by \$18.4 million. Estate tax payments (+\$3.2 million and unclaimed property receipts (+\$6.2 million) were also significantly more than expected this month. Revenue Act sources, the state's major excise taxes, were a little (\$12.0 million) below the forecast for the month. Revenue Act (retail sales, business & occupation, use and public utility taxes) receipts this month included an unusually large (\$16.0 million) and unexpected refund. Excluding the refund, Revenue Act receipts were a little higher (\$4.0 million) than expected for the period. Cumulatively, General Fund-State collections are now \$41.9 million higher than expected in the three months since the June forecast. Virtually all of this is due to a still very strong real estate market.

After a couple of weak months the economy appears to have improved a bit. Nationally, the August job numbers were significantly above the last couple of months. In addition, the employment gain in July was revised upward. The Bureau of Labor Statistics reported that the U.S. economy added 144,000 jobs in August, about as expected. The July employment gain was increased from 32,000 jobs to 73,000. Also, both the Federal Reserve's Beige book and Fed Chairman Greenspan's testimony before congress last week indicates that the economy is showing signs of improving. The Washington economy added jobs in July for the sixth consecutive month. However, the seasonally adjusted initial claims for unemployment insurance were up in August.

Spending appears to have rebounded somewhat this month. Revenue Act collections in the August 11-September 10 period which primarily reflects July 2004 business activity, were 6.2 percent higher than a year-ago (excluding the impact of special factors). This was up from 5.5 percent last month and a weak 3.1 percent two months ago. The average growth for the last three months is 5.0 percent. For the first seven months of calendar 2004, Revenue Act receipts growth has averaged 5.5 percent; this compares to just 3.8 percent for the last half of calendar 2003. Although growth has improved in recent months, Revenue Act collections are still \$27.5 million below expectations in the three months since the June forecast. The cumulative negative Revenue Act variance is in part due to weaker than expected spending in May and in part due to special factors (\$9.5 million, large refunds partially offset by large audit payments).

Preliminary data on tax payments by industry is based on payment data of 10,915 mostly large taxpayers who filed electronically for the current month show modest growth. Tax payments of businesses in the retail trade and food services sector were up 3.3 percent while non-retailers reported

only a 2.9 percent increase. Last month this data showed tax payments by retailers up 4.4 and non-retailers up 5.0 percent. For the current month all three-digit retail NAICS sectors with the exception of food stores reported an increase in tax payments. Three of twelve three digit retail NACIS sectors reported double-digit gains: building material/garden equipment retailers (+13.4 percent), furniture and appliance retailers (+13.4 percent) and apparel and accessory stores. Growth in other retail trade sectors ranged from a 9.8 increase reported by electronics and appliance stores to a 1.1 percent increase reported by gas stations and convenience stores. Motor vehicle and parts retailers reported a 1.3 percent increase after posting a 3.6 percent decline last month. There was considerable variation in the year-over-year change in tax payments reported by business in non retail NAICS sectors. Sectors reporting increases include the transportation and warehouse sector (+12.9 percent), the information sector (+9.0 percent), the health services sector (+8.6 percent), the wholesale trade sector (+4.0 percent), and the construction sector (+6.1 percent). Sectors reporting declines include finance and insurance (-12.0 percent), professional, scientific and technical services (-4.6 percent) and manufacturers (-4.3 percent).

Non-Revenue Act General Fund taxes collected by the Department of Revenue were \$29.6 million above the estimate for the month. Higher real estate excise tax, estate tax, and "other" (primarily unclaimed property receipts) accounted for most of the variance. Cumulatively, non revenue Act sources are an amazing \$68.1 million higher than expected, with real estate excise tax (+\$47.3 million), estate (\$6.6 million) and unclaimed property (+\$7.9 million) accounting for most of the variance. Some of the unclaimed property variance (\$4.4 million) is due to settlement of a lawsuit and includes monies due to other states that will be transferred out of the General Fund probably next month,

Real estate activity remained strong this month. Taxable activity (based on closings in July which reflect tax payments to the state in August) was 28.9 percent higher than a year-ago. While this reflects a deceleration from last month's incredible 46.3 percent increase, it is the sixth month in-a-row with growth of 18 percent or better. The strength in real estate activity continues to be driven primarily by higher prices. In the most recent month, transactions were 4.4 percent higher than a year-ago while the value per transaction increased 22.9 percent. This is the second consecutive month in which the value per transaction has increase more than 20 percent. This has not happen since the first quarter of 1997. Real estate activity may start to weaken in the forth quarter if mortgage rates rise as expected.

Department of Licensing General Fund-State collections, which primarily reflect various license fees, were \$120,000 above the estimate for the month. Department of Licensing General Fund-State collections are now \$1.4 million above the forecast for the three months since the June forecast.

The attached Table 1 provides a comparison of collections with the June 2004 forecast for the July 11 – August 10, 2004 collection period and cumulatively since the June 2004 forecast. Table II compares revised collections figures to the preliminary numbers reported in last month's collection report.

CMS: cg

Attachments

TABLE 1
Revenue Collection Report
September 10, 2004 Collections Compared to the June 2004 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Amount</u>	<u>Difference</u> <u>Percent</u>
August 11 - September 10, 2004				
Department of Revenue-Total	\$804,244	\$821,884	\$17,639	2.2%
Revenue Act** (1)	719,246	707,257	(11,989)	-1.7%
Non-Revenue Act(2)	84,999	114,627	29,629	34.9%
Liquor Sales/Liter	8,735	9,372	638	7.3%
Cigarette	4,631	5,109	478	10.3%
Property (State School Levy)	7,730	6,323	(1,407)	-18.2%
Estate	8,094	11,315	3,221	39.8%
Real Estate Excise	46,211	64,596	18,386	39.8%
Timber (state share)	1,572	2,287	715	45.5%
Other	8,026	15,624	7,598	94.7%
Department of Licensing (2)	1,117	1,237	120	10.7%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$805,361	\$823,120	\$17,759	2.2%
Cumulative Variance Since the June 2004 Forecast (June 11, 2004 - September 10, 2004)				
Department of Revenue-Total	\$2,834,376	2,874,935	40,559	1.4%
Revenue Act** (3)	2,259,669	2,232,120	(27,549)	-1.2%
Non-Revenue Act(4)	574,707	642,815	68,109	11.9%
Liquor Sales/Liter	25,293	25,861	568	2.2%
Cigarette	13,818	14,425	607	4.4%
Property (State School Levy)	295,491	294,859	(632)	-0.2%
Estate	39,086	45,715	6,629	17.0%
Real Estate Excise	148,256	195,535	47,279	31.9%
Timber (state share)	1,572	2,287	715.0	45.5%
Other	51,190	64,132	12,942	25.3%
Department of Licensing (4)	9,542	10,899	1,357	14.2%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$2,843,918	\$2,885,834	\$41,916	1.5%

1 Collections August 11 - September 10, 2004. Collections primarily reflect July 2004 activity of monthly taxpayers.

2 August 1-31, 2004 collections.

3 Cumulative collections, estimates and variance since the June 2004 forecast; (June 11 - September 10, 2004) and revisions to history.

4 Cumulative collections, estimates and variance since the June forecast; (June - August 2004) and revisions to history.

5 Lottery transfers to the General Fund

* Based on the June 2004 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

TABLE 2
August 10, 2004 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
July 11 - August 10, 2004				
Department of Revenue-Total	\$992,521	\$992,522	\$1	0.0%
Revenue Act (1)	853,616	853,616	0	0.0%
Non-Revenue Act(2)	138,905	138,905	0	0.0%
Liquor Sales/Liter	8,424	8,424	(0)	-0.0%
Cigarette	4,153	4,153	0	0.0%
Property (State School Levy)-net	13,500	13,500	0	0.0%
Property tax collections	13,500	13,500	0	0.0%
transfer to the Student Achievement Acct.	0	0	0	NA
Estate	23,869	23,869	0	0.0%
Real Estate Excise	74,807	74,807	(0)	-0.0%
Timber (state share)	0	0	0	NA
Other	14,152	14,152	0	0.0%
Department of Licensing (2)	3,721	3,722	1	0.0%
Lottery (2)	0	0	0	NA
Total General Fund-State***	996,243	996,243	\$0	0.0%

Cumulative Receipts: June 11 - August 10, 2004 & Revisions to History

Department of Revenue-Total	2,053,052	\$2,053,052	(\$0)	-0.0%
Revenue Act (3)	1,524,864	1,524,864	(0)	-0.0%
Non-Revenue Act(4)	528,188	528,188	0	0.0%
Liquor Sales/Liter	16,489	16,489	(0)	-0.0%
Cigarette	9,316	9,316	(0)	-0.0%
Property (State School Levy)-net after transfer	288,536	288,536	0	0.0%
Property tax collections	288,536	288,536	0	0.0%
transfer to the Student Achievement Acct.	0	0	0	NA
Estate	34,400	34,400	0	0.0%
Real Estate Excise	130,939	130,939	(0)	-0.0%
Timber (state share)	0	(0)	(0)	NA
Other	48,508	48,508	0	0.0%
Department of Licensing (4)	9,661	9,489	(172)	-1.8%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$2,062,713	\$2,062,540	(\$173)	-0.0%

Preliminary. Reported in the August 10, 2004 collection report.

1 Collections July 11 - August 10, 2004. Collections primarily reflect June 2004 business activity of monthly taxpayers and q2,2004 activity of quarterly filers.

2 July 1-31, 2004 collections.

3 Cumulative receipts since the June 2004 forecast: June 11- August 10,2004 & revisions to history.

4 Cumulative receipts since the June 2004 forecast (June -July) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

Revenue Act Net Collections

Year-over-Year Percent Change

